

EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI		X		
6	DDA				
7	DDO		X		
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC		X		
17	D/NESA		X		
18	C/NE		X		
19	NIO/NESA		X		
20	ER				
21					
22					
SUSPENSE		Date			

Remarks

(ER has no record of earlier reporting referred to in first paragraph.)

Executive Secretary

6 August 86

Date

3637 (10-81)

25X1

CONTROL AND COVER SHEET FOR TOP SECRET DOCUMENT (COLLATERAL)

M and His Debt

ATTENTION: Access to the attached document is restricted to only authorized recipients or Top Secret control personnel. For accountability purposes, all designated individuals are to sign and date this form.

Remove this sheet upon completion of any action noted below, classify form, and forward to the CIA Top Secret Control Officer.

DCI
EXEC
REG

C-305D-1A

Rec ER 6 Aug 86

MEMORANDUM

~~TOP SECRET~~

THE VICE PRESIDENT

WASHINGTON

August 5, 1986

MEMORANDUM FROM THE VICE PRESIDENT

FOR : SECRETARY GEORGE SHULTZ
ADMIRAL JOHN POINDEXTER
SECRETARY JAMES BAKER

SUBJECT: Mubarak and His Debt.

This is an addendum to previous reporting coming out of my one-on-one with Mubarak.

He presented me with the attached.

He cited his debt situation as "very dangerous", we need relief "now, urgently".

"I don't want to reach the point when I cannot pay." He called it "auctioneering" with the people of the U.S.A.

He is paying 14-16% on arms objecting at "too much" and "destabilizing".

He asked me to ask Treasury "to treat us the same as Mexico".

He talked to Kohl, Thatcher, Chirac who, he says, promise to help.

He urged us to get the IMF to be more flexible.

"Doing more now would create an impossible internal problem."

He cited the decline in oil from \$28 per bbl to \$6 per bbl as the main reason for his problem.

Mubarak mentioned he would do more with privatization. He made a strong plea for transferring the \$110 million that he has coming now. (Today on the way to the airport Prime Minister Lutfi told me he was announcing the customs changes next week.

Mubarak, claiming to have made many reforms, kept stating that he can't make more reforms now. "I desperately need help". I must avoid a 'crash' with my people."

~~TOP SECRET~~

ER TS 0161 86

Copy 1 of 9 Copies

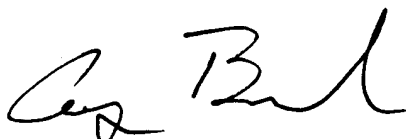
MEMORANDUM

TOP SECRET

THE VICE PRESIDENT
WASHINGTON

Page 2

I had meetings with all the top people in Egypt -- President, Prime Minister, Foreign Minister, Defense Minister -- all mentioned with great urging the need for financial help.



GEORGE BUSH

cc: Ambassador Pelletreau
Don Gregg
~~DCI~~

TOP SECRET



MINISTER OF CABINET AFFAIRS &

MINISTER OF STATE FOR ADMINISTRATIVE DEVELOPMENT.

- 1 -

1- Egypt Economy

1-1- Egypt Resources

Egypt is not rich in natural resources, however it does have a good base for sustained growth.

- Fair water resources and enough to increase its agriculture production.
- Fair industrial capacity and enough to satisfy a good part of local demand and for export.
- Surplus of skilled workers and technicians, 3 million of them are still working in the Arab World.

1-2- Egypt Short Term Problems 1986-1988

- 1- A deficit in the budget which reached 14% of national income, and should be reduced to 10%.
- 2- A deficit in the balance of payment which is expected to be 3000 million dollars per year.



MINISTRY OF CABINET AFFAIRS &

MINISTRY OF STATE FOR ADMINISTRATIVE DEVELOPMENT.

- 2 -

3- An inflation rate of 20% this year and is increasing steadily.

4- Population growth of 2.7% per year. This year Egypt expects to have 1.3 million inhabitants.

2- Serious, Courageous Confrontation to Economic Problems

Egypt started a comprehensive program for economic reform addressed towards these problems.

PROBLEM	Measures Taken
1- <u>Deficit in the Budget</u>	<u>Cutting Expenses</u> 1- Cutting government operating expenses by 25% (Net savings is 400 million). 2- Freezing automatic employment in the government for the first time since 1967. 3- Allowing increase of wages by 5% only instead of 10%. 4- Cutting subsidies by 15% (Net saving is 250 million).



TER OF CABINET AFFAIRS &

STER OF STATE FOR ADMINISTRATIVE DEVELOPMENT.

- 3 -

Problem	Measures Taken
	<p><u>Increasing Resources</u></p> <p>1- <u>Introducing Comprehensive Custom Reform</u> that will stop all exemptions except those granted to armed forces. Expected income is 800 600 million.</p> <p>2- Increase of <u>direct taxes</u> (sales taxes) on consumer durables and luxury goods. <u>Expected income is 600 million pounds.</u></p> <p>3- Increase of gasoline prices by 20% (Second increase in two Years). Expected income is 150 million pounds.</p> <p>4- <u>Lifting Control on Prices of Industrial Goods</u> local travelling and teli-communication and postal services to allow for full coverage of cost and a fair margin of profit (Expected income <u>is 500 million pounds.</u></p> <p>5- Elemination of subsidy to air-ticket by increasing prices of tickets by 60%.</p> <p>6- Special tax on travelling abroad (10% of the value of ticket).</p>



MINISTRY OF CABINET AFFAIRS &

MINISTRY OF STATE FOR ADMINISTRATIVE DEVELOPMENT.

- 4 -

Problem	Measures Taken
<p>2- <u>Balance of Payment Deficit</u></p>	<p>Three main reasons behind the deficit this year and for the next three years:</p> <ol style="list-style-type: none"> 1- The payments Egypt has to make for U.S.A., France, Italy and Spain to serve existing debt. Egypt borrowed at high interest rates (ranges between 12% to 16%). 2- The decline in Egypt main resources: Export of oil and transfers from Egyptian workers working abroad. 3- The decline in income from tourism. Tourist traffic to Egypt declined by 40% in 1986. <p><u>Measures Taken:</u></p> <p><u>Cutting Demand for Foreign Currency</u></p> <ol style="list-style-type: none"> 1- Increasing share of the private sector in importation at market exchange rate. It is now <u>more than 60% of total imports</u>. 2- Putting special tax on travelling abroad. 3- Special taxes on imports of consumer luxuries. 4- Dollar tax on every article purchased from the free zone.



MINISTER OF CABINET AFFAIRS &

MINISTER OF STATE FOR ADMINISTRATIVE DEVELOPMENT.

- 5 -

Problem	Measures Taken
	<p>5- Cutting government expenditure abroad by 25%.</p> <p>6- Special incentives to Investments with higher percentage of local components such as General Motor.</p> <p>7- Encouraging off-set trade and paying for imports through exports.</p> <p><u>Increasing Country Resources</u></p> <p>1- Simplification of exchange rates to help encourage exports.</p> <p>2- Drastic administrative reform to facilitate exports.</p> <p>3- Encourage private effort to promote sales of touristic package and charter flights to Egypt.</p> <p>4- Issuing dollar bonds at higher interest rate.</p> <p>5- Special incentives for purchasing real estate by non-Egyptians.</p>



MINISTER OF CABINET AFFAIRS &

MINISTER OF STATE FOR ADMINISTRATIVE DEVELOPMENT.

- 6 -

Problem	Measures Taken
<p>3- <u>Inflation Rate</u></p>	<p>1- Cutting the deficit in the budget is hoped to help reduce rate of inflation.</p> <p>2- The Central Bank is implementing measure to control the volume of credit.</p> <p>3- Drastic management reform will be introduced in the management of the public firms. private techniques will be applied.</p> <div data-bbox="496 1220 1247 1520" style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p>This is not enough we believe the real control will come through the strengthening of the production base in egypt.</p> <p>U.S.A and Europeans could help a lot here through massive serious measures:</p> </div> <p>1- Re-scheduling of debt to allow for the use of our resources in getting supplies and material to the production sector.</p> <p>2- Support Egypt request for stand-by fund from IMF.</p> <p>3- Support Egypt request for production sector loans from the World Bank.</p>



TER OF CABINET AFFAIRS &

TER OF STATE FOR ADMINISTRATIVE DEVELOPMENT.

- 7 -

Problem	Measures Taken
	<p>4- Support paying back debt in the form of exports from Egypt.</p> <p>5- Immediate relief from the burden of military debt.</p> <p>6- Technical free-aid in up-grading and increasing productivity of the agricultural and industrial sector.</p>
<p>4- <u>Population</u></p>	<p>Egypt realize the complicated nature of the population problem, and the difficulties encountered in controlling growth because of social and religious reasons. However, a comprehensive program is being implemented and monitored. It includes:</p> <p>1- Making family planning devices available to every family.</p> <p>2- Increasing employment opportunities to women, and extending soft credit to home production.</p> <p>3- Controlling illiteracy since education has direct relation to number of children in the family.</p> <p>4- Implementation of national program for child health care, since it affects the number of children born.</p>